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## Equity Allocation

There have been no new funds added to the equity portion of the Momentum Managed Portfolios. Instead we have taken this opportunity to reduce our allocation to UK growth style managers and increase exposure to our UK value style managers and emerging market equities.

## Reducing

CF Lindsell Train UK Equity Fund (Managed Portfolio 3 to 9), Liontrust UK Smaller Companies (Managed Portfolios 7 and 8) and Old Mutual UK Smaller Companies (Managed Portfolios 7 and 8).

We have decided to rotate our style exposure slightly more towards value and away from growth/momentum managers. To illustrate the divergence between these two styles, last year two of our UK growth managers, Old Mutual UK Smaller Companies and Liontrust UK Smaller Companies both outperformed the market by 23% and 15.5% respectively, whereas our value managers underperformed the market. The Managed Portfolios have a high exposure to UK growth managers so we are therefore taking some profits by reducing this exposure in the range of 2% to 6% depending on the risk profile of the strategy. Each portfolio will still have exposure to UK growth managers however we feel that now is the time to exploit opportunities in our UK value managers due to their underperformance over the last 12 months as well as emerging market equities where valuations still remain very attractive despite last year's outperformance.

## Increase

Schroder UK Recovery (Managed Portfolio 3 to 8), JP Morgan Emerging Market Income Fund (Managed Portfolio 3 to 8) and Somerset Emerging Dividend Growth Fund (Managed Portfolio 7 to 8).

As mentioned above, UK value managers have underperformed the market over the past 12 months and have therefore made value stocks more attractive on a relative basis whilst heightened volatility could also create more idiosyncratic opportunities. Consequently we have decided to add between 2% and 3%, depending on the risk profile of the strategy to the Schroder UK Recovery Fund. Additionally, UK equities are reasonably priced today on a forward looking basis but some caution is warranted given the uncertainty surrounding the UK's eventual Brexit terms. The UK market is very much exposed to global markets and factors and somewhat insulated from the headline Brexit concerns, not least benefiting from any Sterling weakness. In terms of emerging market equities although there has been recent strong performance, valuations remain attractive today. More elevated volatility should be expected going forward, with central bank policy and politics remaining central to risk pricing but with emerging markets currencies remaining somewhat cheap in aggregate, this further supports our decision to increase our allocation to emerging market strategies. Nonetheless we have taken into account the dollar being extremely weak and any reversal may see emerging market assets come under pressure. Emerging market equities have therefore seen an increase of 2% to 3% depending on the strategy.

## Fixed Income

### Reducing

Fidelity Strategic Bond Fund (Managed Portfolio 3 to 5), Vanguard UK Investment Grade Bond (Managed Portfolio 3), Vanguard UK Short Duration Investment Grade Bond (Managed Portfolio 3 to 4), RWC Global Convertibles (Managed Portfolio 3 to 7) and L&G Emerging Market Government Bond (Managed Portfolio 3 to 6).

The Momentum lower risk portfolios had a sizable allocation to strategic bond managers and tactical change version 29 saw the Fidelity Strategic Bond fund sold across the entire range of portfolios apart from Managed Portfolio 3 where the weighting was only reduced by half due to its size. We have therefore taken this opportunity to remove the allocation to this fund entirely and reallocate the weighting towards a specialised short duration high yield manager (details below).

Following on from tactical change version 29, we have continued the trend of reducing our UK investment grade exposure. In version 29 we sold the Vanguard UK Investment Grade Bond across all strategies apart from Managed Portfolio 3 however we have now removed this allocation entirely. The Vanguard UK Short Duration Investment Grade Bond remained in Managed Portfolios 3 and 4 but since corporate credit spreads in investment grade have crunched in further over the last few months to a level where we believe we are insufficiently compensated for the additional risk, especially given the deterioration in average credit quality compared to previous cycles, we have decided to sell out of the short duration fund entirely in Managed Portfolio 4 and see a reduction of 3% in Managed Portfolio 3.

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Managed Portfolios 3 to 7 will see a reduction of between 1% and 3% in the convertibles portion of the portfolios via the RWC Global Convertibles Fund. This is due to convertible bonds being priced slightly rich to their constituent parts today and some caution is warranted given the concentration to the US market and technology names. Nevertheless we continue to hold a position in this asset class in our multi asset portfolios for the convexity it brings.

Managed Portfolios 3 to 6 had a significant weighting towards emerging market debt via the L&G Emerging Market Government Bond and due to their recent strong performance and with spreads tightening sharply as well as a weak US dollar we have decided to trim back our exposure slightly by reducing the allocation by 1% or 2% across the strategies. We continue however to hold a significant weighting to emerging market debt because it still ranks as one of the better real return opportunities.

## **Buy**

Legal & General Global Inflation Linked Bond Index (Managed Portfolios 3 to 5), Vanguard US Government Bond Index (Managed Portfolios 3 to 5) and AXA US Short Duration High Yield (Managed Portfolios 3 to 7).

Managed Portfolios 3 to 5 will see their allocation towards inflation linked gilts and US government bonds increase. Inflation linked gilts will be increased as they are one of the few ways to meaningfully protect against inflation risk. US government bonds will be increased to offer the portfolios diversification against riskier assets and remain one of the best diversifiers in a multi asset portfolio. In combination, the changes we are making should result in reduced spread duration within the fixed income portions of these portfolios, while interest rate duration will remain broadly unchanged.

The AXA US Short Duration High Yield strategy has been added to Managed Portfolios 3 to 7. The reason for adding a short duration manager is because risk returns are more favourable than holding long duration high yield and in the absence of a systemic market shock, high yield returns will likely outplay all other fixed income assets.

## **Property/Infrastructure**

### **Buy**

First State Global Infrastructure (Managed Portfolios 5 to 7) and L&G Global Real Estate Dividend Index Fund (Managed Portfolios 7 and 8)

Property remains an attractive asset class. In the UK, returns look more attractive outside the capital at this time, where prices have come under pressure. Total returns will come mostly from income with limited scope for capital growth. When viewed against high quality longer duration Sterling assets and inflation linked bonds, property has appeal. The retail property and mall sector has been supported in recent months with the announcement of several deals consolidating the larger players. As a long duration asset class, property remains susceptible to any re-pricing in long term bond yields. Infrastructure stocks trade at reasonable valuations today with low but positive real return expectations over the medium term. Their income-generating potential should continue to support the sector and attract buyers of quality infrastructure assets. In a multi asset portfolio, the relatively defensive nature of the asset class and a degree of inflation protection make the asset class appealing. As a result Managed Portfolios 5 to 7 will see their allocation increase by 1% and Managed Portfolio 8 by 2%.

# Managed Portfolio New Fund Selection

## v30

momentum

February 2018

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↑ Increase Allocation   ↓ Decrease Allocation   → No Change   ● New Allocation

low risk ← → high risk

	3	4	5	6	7	8
<b>EQUITIES</b>						
<b>UK EQUITY</b>						
CF Lindsell Train UK Equity Fund	1.0↓	1.5↓	4.5↓	5.5↓	3.0↓	3.0↓
Evenlode Income B Acc	3.5→	6.5→	10.5→	8.0→	8.0→	4.0↓
Liontrust UK Smaller Companies Acc	-	-	-	-	2.0↓	3.0↓
Old Mutual UK Smaller Companies R Acc	-	-	-	3.0→	2.0↓	3.0↓
Schroder UK Recovery Z	6.0↑	11.0↑	14.0↑	9.0↑	11.0↑	10.0↑
<b>GLOBAL EQUITY</b>						
Veritas Global Focus Fund	2.0→	6.0→	7.0→	7.0→	5.0→	7.0→
Trojan Global Equity O Acc	-	6.5→	9.0→	8.0→	6.0→	4.0↓
Fidelity Index World W Acc GBp	-	-	-	6.0→	6.0→	-
FP Crux European Special Situations Fund I Acc GBP	1.5→	2.5→	2.0→	4.0→	5.5→	6.0→
Fidelity Index Japan W	1.5→	1.5→	2.0→	2.0→	3.0→	3.0→
<b>EMERGING MARKET EQUITY</b>						
JP Morgan Emerging Market Income Fund	3.5↑	4.0→	5.0↑	5.0↑	9.0↑	11.5↑
Fidelity Emerging Markets Index Acc	-	-	-	-	-	9.0→
First State Asia Pacific Leaders B Fund Acc	-	3.0●	5.0→	7.5→	11.0→	13.0→
Somerset Emerging Dividend Growth Fund Acc	-	-	-	5.0→	6.0↑	8.5↑
<b>FIXED INCOME</b>						
<b>INFLATION LINKED GILTS</b>						
L&G Gbl Infln Lkd Bd Index I Acc	13.0↑	9.0↑	5.0↑	2.0→	-	-
<b>GOVERNMENT BONDS</b>						
Vanguard US Government Bond Index	6.0↑	5.0↑	2.0●	-	-	-
<b>INVESTMENT GRADE</b>						
Vanguard UK Investment Grade Bond	0.0↓	-	-	-	-	-
Vanguard UK STInvGrdBd Idx A£	5.0↓	0.0↓	-	-	-	-
<b>CORPORATE BONDS</b>						
Fidelity Strategic Bond Fund	4.0↓	0.0↓	0.0↓	-	-	-
Jupiter Strategic Bond Fund	4.0→	-	-	-	-	-
MI TwentyFour Dynamic Bond Fund I Acc	7.0→	5.0→	4.0→	4.0→	3.5→	-
<b>HIGH YIELD</b>						
AXA US Short Duration High Yield Fund ZI Gross Acc	7.0●	4.0●	2.0●	2.0●	2.0●	-
<b>CONVERTIBLES</b>						
RWC Global Convertibles B GBP Hedged	3.0↓	5.0↓	4.0↓	3.0↓	2.0↓	-
<b>EMERGING MARKET DEBT</b>						
L&G Em Gov Bd (USGBX) Index I Acc	5.0↓	6.0↓	6.0↓	2.0↓	-	-
<b>LIQUID ALTERNATIVES</b>						
F&C Global Equity Market Neutral Fund Share Class 3 Acc	3.5→	3.0→	4.0→	3.0↑	3.0→	3.0↑
Kames UK Equity Absolute Return B Fund Acc	6.5→	6.0→	2.0↓	2.0→	-	-
<b>PROPERTY</b>						
First State Global Listed Infrastructure GBP B Acc	3.0→	3.0→	4.0↑	5.0↑	5.0→	5.0↑
L&G Global Real Estate Dividend Index Fund	5.0→	5.0→	5.0→	5.0→	5.0↑	5.0↑
<b>CASH</b>						
Cash	9.0↓	6.5↓	3.0↑	2.0→	2.0→	2.0→

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